



## FINANCIAL MANAGEMENT PERFORMANCE HIGHLIGHTS

DOT's budget is supported primarily by two types of revenue sources: (1) trust funds and direct receipts, and (2) general funds. Trust funds derive from revenue from special fees, such as motor fuel taxes and airline ticket taxes. More than two-thirds of the Department's funding is derived from trust funds and other fees. The two largest trust funds, the Highway Trust Fund and the Airport and Airways Trust Fund, account for most of DOT's funding and support the Department's programs for maintaining and improving transportation infrastructure. General revenue funds are obtained from the general taxes of the United States.

### TRANSPORTATION EQUITY ACT FOR THE 21<sup>ST</sup> CENTURY (TEA-21)

On June 9, 1998, the President signed into law the Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21) authorizing highway, highway safety, transit, and other surface transportation programs for the next 6 years. TEA-21 builds on the initiatives established in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). This new Act combines the continuation and improvement of current programs with new initiatives to meet the challenges of improving safety as traffic continues to increase at record levels, to protect and enhance communities and the natural environment while providing transportation, and to advance America's economic growth and competitiveness through efficient and flexible transportation.

Significant Features of TEA-21 include:

- ✓ Assurance of a guaranteed level of Federal funds for surface transportation through FY 2003.
- ✓ Extension of the Disadvantaged Business Enterprises program.
- ✓ Strengthening of safety programs across DOT.
- ✓ Continuation of the program structure established under the ISTEA legislation and addition of new programs.
- ✓ Investment in research and its application.
- ✓ Extension of the highway-user taxes through September 30, 2005, at the same rates in effect prior to TEA-21 enactment.

Significant Features of TEA-21 Financing Include:

- ✓ ***Guaranteed Spending Levels:***  
Highway and transit discretionary programs are guaranteed a floor (a minimum level of spending) by new budget categories which effectively establish a budgetary "firewall" between each of those programs and all other domestic discretionary programs.
- ✓ ***Authorizations and Spending:***  
The minimum level of spending for highways is keyed to the projected receipts of the Highway Account of the Highway Trust Fund and will be

adjusted as new receipt projections and actual receipts become available. The guaranteed funding for transit programs has a single component—the minimum level of spending amount—which is not keyed to Trust Fund receipts.

- ✓ ***Increases and Decreases:*** A portion of any increase in receipts to the Highway Account is reserved for the Federal-aid highway and highway safety construction programs allocated by the Secretary of Transportation—programs that are not apportioned by statutory formula. Should decreases be necessary, the reductions would be made in succeeding fiscal years and applied proportionally to all Federal-aid highway and highway safety construction programs except Emergency Relief.
- ✓ ***Obligation Limitations:*** Spending limitations are applied to most programs. However, obligation limitations set aside each year for certain programs do not expire if not used by the end of the fiscal year, but can be carried over to future years.

## **INNOVATIVE FINANCING**

DOT continues to build on opportunities provided by transportation legislation by using innovative financing techniques that move construction projects ahead faster, cut red tape, and supplement Federal funds with private and non-Federal public investment. The Transportation Infrastructure Finance and Innovation Act (TIFIA) of TEA-21 will continue this practice by filling gaps in market funding and leveraging additional non-Federal resources. It will provide Federal assistance to major transportation projects of critical national importance, or which cross jurisdictions or traditional modal boundaries and sometimes have trouble getting funded despite their value. This will be done through direct Federal

loans, loan guarantees, and standby lines of credit. Project selection is based on the extent to which it generates economic benefits, leverages private capital, and promotes innovative technologies.

Another major innovative financing initiative is State Infrastructure Banks (SIBs). SIBs use Federal seed capital to leverage private investment through loans and credit enhancement assistance, and are meant to serve as ongoing, revolving loan funds. As projects are implemented, loans are repaid to the SIB, and the proceeds are used for new projects in a continuing cycle. Previously 35 States were authorized to capitalize SIBs. TEA-21 establishes a new SIB pilot program for 4 more States.

## **AUDITED FINANCIAL STATEMENTS**

For FY 1997 DOT prepared its second audited consolidated financial statement which presented to the American public a comprehensive overview of DOT's major programs, overall financial position, and resulting benefits and services.

The separate Saint Lawrence Seaway Development Corporation financial statement, prepared per the requirements of the Government Corporation Control Act, received a clean opinion, as it has since its inception.

The separate Highway Trust Fund financial statement, which accounts for approximately 60 percent of the Department's current budgetary resources, received a qualified opinion from the OIG. It would have received an unqualified opinion for the second year in a row barring problems with Treasury records (outside the control of DOT) resulting in the OIG being unable to obtain independent verification or otherwise satisfy themselves as to the reasonableness of trust fund revenues at Treasury.

The separate Federal Aviation Administration (FAA) financial statement

received a disclaimer of opinion due primarily to weaknesses relating to supporting records for property, plant and equipment and operating materials and supplies. Similar problems exist with the Coast Guard, where problems were also noted with the actuarial liability for post-retirement health care benefits and military retirement pay.

The problems encountered in the separate DOT financial statements impacted the DOT consolidated financial statement as such that it received a disclaimer of opinion. DOT continues to take necessary corrective actions on identified findings to move towards unqualified audit opinions.

FY 1997 was the first year for which the OIG also reviewed DOT compliance with the provisions of the Federal Financial Management Improvement Act (FFMIA) of 1996. The OIG viewed DOT as not in substantial compliance with FFMIA, mainly due to unfinished work relating to FAA and Coast Guard property and inventory, weaknesses in Departmental Accounting and Financial Information System (DAFIS) support of financial statement balances, Coast Guard actuarial liability problems, and uncompleted Year 2000 assessments. Year 2000 assessments have now been reported to OMB as completed. Remedial plans for the remaining items have been developed and actions are in progress to bring DOT into compliance with FFMIA.

Financial Statement Progress						
	<u>FY 92</u>	<u>FY 93</u>	<u>FY 94</u>	<u>FY 95</u>	<u>FY 96<sup>2</sup></u>	<u>FY 97</u>
<b>Financial Statements</b>						
Prepared	9	9	9	8 <sup>1</sup>	4	4
Audited	4	5	9	8	4	4
<b>Results of Audits</b>						
Opinions: Unqualified	1	1	2	4	2	1
Qualified	--	1	2	3	--	1
Disclaimed	3	3	5	1	2	2

<sup>1</sup> Only eight FY 1995 statements were prepared and audited because, in FY 1994, Washington Metropolitan Area Transit Authority refinanced its debt eliminating any federal liability and reporting responsibility.

<sup>2</sup> Coverage of DOT accounts changed from FY 1995 to FY 1996 with the Government Management Reform Act requirement that financial statements, beginning with FY 1996, be prepared and audited for all DOT activities instead of trust, revolving, and commercial funds only. Except for three stand-alone statements, the FY 1996 consolidated financial statement replaced most individual statements reducing the number of statements from eight to four.

## FEDERAL MANAGERS’ FINANCIAL INTEGRITY ACT

DOT has one outstanding material weakness reportable under the Federal Managers’ Financial Integrity Act of 1982 (FMFIA). DOT’s Intermodal Data Network which connects local area networks within DOT agencies was found vulnerable to unauthorized access. This material weakness was identified in FY 1996 and was considered on target for correction as of December 1998. Appropriate procedures have already been established, and all that remains is to finalize security directives and disaster recovery plans.

<b>FMFIA Section 2: Material Weaknesses Pending</b>
Intermodal Data Network vulnerability to unauthorized access.
<b>FMFIA Section 4: Material Noncoformances Pending</b>
None

We reported an additional material weakness for FY 1998 concerning FAA headquarters’ Property Management Program. Many improvements have been made in FAA’s property area. We conducted physical inventories and have been reconciling the property systems with the general ledger accounts in DAFIS. We are continuing to develop detailed support files for work-in-process, and have provided tools for FAA personnel to assist in the reconciliation of all property accounting systems.

The General Accounting Office, in a report entitled “Air Traffic Control: Weak Security Practices Jeopardize Flight Safety,” included

14 recommendations. Three of the recommendations pertained to the physical security of FAA facilities and most of the remaining 11 recommendations addressed information systems security for National Airspace Systems. We are working to ensure these weaknesses are corrected. Additionally, certain physical security vulnerabilities at the FAA Logistics Center’s warehouse in Oklahoma City were identified during the past year. Structural and procedural changes have been effected to mitigate these vulnerabilities.

Finally, we have been working hard to set up and reinforce internal controls throughout the department to eliminate fraud. The FAA Central Region had an embezzlement of funds over an extended period, which a national review team determined was primarily due to deviation from the prescribed internal control systems and procedures that were adequate to safeguard Government assets. A plan was developed to rectify this situation, and an on-site evaluation in December 1997 ensured that procedures were being administered effectively.

## YEAR 2000 (Y2K)

The Year 2000 program is a top priority in the Department. In January 1999, the Department reported 53 percent of its mission-critical systems were Year 2000 compliant. Of those systems requiring repair (307), 24 percent completed the implementation phase; 79 percent completed the validation phase; and 98 percent completed the renovation phase.

Due to the complex nature of various FAA systems, such as the National Airspace System, and the magnitude of the testing process, FAA does not project completion of validation activities for many of its systems until March 1999. Completion of implementation activities is expected in June

1999. FAA has accelerated schedules for 42 of its systems, and will continue to look for acceleration opportunities. Senior management in DOT and FAA continue to aggressively monitor progress in this area.

Over the past year, DOT-wide financial systems have made considerable progress in remedying their Year 2000 deficiencies. By the end of 1998, all four Department-wide financial applications, the Departmental Accounting and Financial Information System (DAFIS), the Consolidated Uniform Payroll System (CUPS), the Integrated Personnel and Payroll System (IPPS), and the Consolidated Personnel Management Information System (CPMIS), were fully renovated and became fully validated in January 1999. The latter resulted from an aggressive testing program of both simulated and forward date testing made possible by the installation of two Year 2000 test environments on ICEMAN, the United States Department of Agriculture- contracted computing platform on which the Department-wide financial applications operate. By the end of January 1999, ICEMAN moved to a Year 2000 production platform, and all the financial applications are now operating on that platform.

A necessary link for operational capability in a Year 2000 environment is telecommunications. All major DOT telecommunications systems that support the Department-wide, feeder, and extractor financial systems were upgraded for Year 2000 purposes during 1998. We continue to track the progress of the Government-wide telecommunications systems, i.e., FTS 2000, on which our DOT telecommunications systems rely.

Despite the considerable time, resources, talent, and energy in making these Department-wide financial applications Year 2000 ready, they will not be permanently "Year 2000 fixed." DAFIS, for example, employs a temporary fix called Windowing, for performing Year 2000 date calculations and comparisons. The ultimate solution is to

migrate the current system to take advantage of commercial off-the-shelf (COTS) software that is fully Year 2000 compliant--a process that is currently taking place in our DELPHI Program.

### Costs to Address Year 2000 Issues

The Department's total estimated Year 2000 costs at the end of January 1999, were \$375.5 million with FAA estimating it needed \$304.6 million and USCG about \$42.6 million as indicated in the chart on page 64. Increasing Department Year 2000 cost estimates have been attributed to the following factors:

- C accelerating project schedules to comply with OMB milestones;
- C increasing independent verification and validation costs;
- C contingency plan development costs;
- C increases in personnel costs, including program management functions;
- C additional costs associated with outreach initiatives; and, unanticipated replacement of non-Year 2000 compliant hardware and software.

	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>Total</b>
DOT excluding FAA & USCG	\$0.0	\$3.9	\$7.9	\$15.0	\$1.5	\$28.3
USCG	\$0.4	\$1.1	\$8.2	\$32.2	\$0.7	\$42.6
FAA	<u>\$0.0</u>	<u>\$6.2</u>	<u>\$105.8</u>	<u>\$188.6</u>	<u>\$4.0</u>	<u>\$304.6</u>
All DOT	\$0.4	\$11.2	\$121.9	\$182.0	\$6.2	\$375.5

### **DOT Year 2000 Risks**

The following issues have had some impact on DOT systems to date, and may have more severe impact in the near future:

- Lack of private sector progress in resolving Year 2000 problems, especially in the telecommunications industry, has the potential for government-wide, nationwide, and worldwide impact. It has been estimated that as much as 90 percent of the government's telecommunications traffic uses public telecommunications facilities. The maritime community also relies on the global communication network to move cargo around the world. Problems with telecommunications Year 2000 readiness could have a worldwide ripple effect on all users.
- Timely delivery of Y2K compliant commercial off-the shelf (COTS) products has been a complicating factor in the remediation efforts of some DOT OAs. Because DOT is a large user of Microsoft products, particularly the FAA and USCG, both organizations have met with Microsoft representatives to learn the status of compliant software products
- Lack of international progress in resolving transportation sector Year 2000 problems is a concern. It is believed that major aviation

countries are making progress with their Year 2000 remediation efforts, but lesser-developed countries are cause for more serious concern. There is insufficient information about foreign airports to confirm their Year 2000 readiness, and there are concerns about foreign commuter/charter carriers. In the maritime industry, 90 percent of ships that call in U.S. ports are of foreign flag, coming to the U.S. with cargo from overseas, yet there is little information available as to their Year 2000 readiness.

### **Business Continuity and Contingency Planning (BCCP)**

Although each OA is responsible for addressing its specific contingency planning and continuity of core business function needs, the Chief Information Office distributed General Accounting Office's Year 2000 Computing Crisis: Business Continuity and Contingency Planning document to all OAs and discussed business continuity plans with them.

FAA completed its draft BCCP in December 1998, and is currently circulating it internally for review. The FAA BCCP will be finalized and released by June 30, 1999. Once published, the document will be supplemented with periodic updates as needed. For each high-level core business process within FAA, including the National Airspace System

(NAS), risk matrices identify a risk(s), business priority, mitigation strategy and milestones, and a contingency plan for each risk. Existing local facility contingency plans and emergency operations procedures are key to the NAS component of the FAA's BCCP. The FAA's BCCP will leverage to the greatest extent possible these existing contingency plans because they are regularly exercised. Finally, the FAA is preparing risk matrices for other core business processes such as finance and accounting, personnel and logistics.

The USCG launched a major BCCP initiative in September 1998. Planning guidance directed all units to develop local BCCPs by April 1, 1999. Model plans completed in January 1999, are making their way throughout the Service. These model plans contain a wide range of mission-related factors and a generic set of threats designed to alert Coast Guard units about the types of issues they should consider in their plans. In addition, planning assist teams are supporting units with field preparedness. Once the Coast Guard's BCCP is drafted and reviewed internally, it will be tested through one or more command post exercises by July 31, 1999. Ongoing maintenance and periodic updates to the plan will be made as necessary through the remainder of 1999.

BCCP requirements are also being addressed in the other OAs. The complexity of the process varies depending on the nature of the mission.

More detailed information on DOT's Year 2000 status and efforts can be obtained from DOT's quarterly report located on the DOT Y2K Transportation Sector website at [www.y2ktransport.dot.gov](http://www.y2ktransport.dot.gov).

## DEBT COLLECTION

Oracle Financials™ Accounts Receivable Module is being implemented in the Coast Guard to provide users with easy-to-retrieve

information regarding amounts owed to the Coast Guard. This system will give users many features not available in the current system. These include management alerts (flags) which will inform the appropriate personnel when required actions should be taken regarding billing, collection, or referral to Treasury of specific receivables. In addition, it will allow for more accurate and faster billings and quicker collections through the use of electronic lockbox transmissions. Several improvements will be available to support interactions with customers, including customizable billing letters which can provide better explanations of charges; recording of customer calls into electronic files which should reduce misunderstandings; and the ability to service customers when the DAFIS system is offline.

The Debt Collection Improvement Act of 1996 provides for referral of debts over 180 days delinquent to Treasury for offset or collection (cross-servicing). DOT continues to work with Treasury of debts appropriate for cross-servicing. In addition, DOT has referred over \$89 million of delinquent debt to the Department of Justice as of September 30, 1998.

Debt Management Performance Highlights (\$ in Millions)		
	FY 1997	FY 1998
Direct Loans and Non-Credit Receivables	\$633	\$1,146
Collection of Receivables	247	152
Delinquent Debt	182	191
Write Offs	14	22
Tax Refund Offsets	.3	0
Referred to DOJ*	80	89

*\*Includes loan guarantee defaults*

## CASH MANAGEMENT

The Debt Collection Improvement Act of 1996 requires electronic funds transfer (EFT) of all new payments made after July 25, 1996 and *all* payments made after January 1, 1999. DOT met the first requirement and established milestones for meeting the FY 1999 target. Good progress is being made. In the Federal Government Direct Deposit/EFT Program for employee payments, DOT's participation rate is well over 95 percent as of September 30, 1998. DOT recently created a one-stop sign up

program for new employees for direct deposit of salary, travel reimbursements, etc. Efforts continue on moving vendor and miscellaneous payments to EFT.

Payment Performance Highlights				
FY 1997			FY 1998	
	# of Transactions	% of Total	# of Transactions	% of Total
<b>EFT:</b>				
Salaries	2,335,000	95.1	2,642,000	96.8%
USCG Ret. Pay	350,000 est.	87.5	367,000	93.9%
Vendor & Misc.	374,000	39.0	555,000	55.0%
<b>Prompt Pay:</b>				
On Time	513,259	92.7	487,220	92.7%
Interest Penalties	30,765	5.6	31,708	6.0%